

BEST PRACTICE

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A Practical Guide to Social Networks

by Rob Cross, Jeanne Liedtka, and Leigh Weiss

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When is a company greater than the sum of its parts? When its once-siloed business units find a way to harvest innovations in the white space between them. That's exactly what happened at heavy-equipment manufacturer United Technologies Corporation.

Each of UTC's five dominant business units—Pratt & Whitney, Sikorsky Aircraft, and Hamilton Sundstrand in aerospace; and Otis Elevator and Carrier on the commercial side—had a long history of pioneering products in its own industry. But because UTC's culture placed a high value on decentralized decision making, each unit operated almost entirely independently of the others.

That approach troubled UTC senior vice president John Cassidy and Carl Nett, director of the company's corporate research center, UTRC. They believed that enormous potential for organic growth existed in the junctures between the business units. But given the history, work practices, control systems, and cultural norms at UTC, integrating various kinds of expertise across those units was, in Cassidy's

terms, an "unnatural act."

To change that, three years ago the two executives invited top technical talent from each division to several two-day brainstorming sessions with the intention of bringing together far-flung expertise to create new products and service new markets. The intersection of cooling, heating, and power emerged early on as a potential winner. In one session, engineers from Carrier, Pratt & Whitney, and UTRC realized that using cooling and heating equipment could transform an innovative power generation concept into a revolutionary product. Called PureCycle, the product contained virtually no major new components, but offered a breakthrough value proposition: Customers could convert waste heat to electricity at rates substantially below those of utilities.

PureCycle coupled a compressor that was converted to run as a turbine with two types of standard heat exchangers used on big commercial air-conditioning units. Instead of taking in electricity and producing chilled air, PureCycle took in waste heat and produced electricity. The product held great promise, since U.S. industrial plants emit roughly as much waste heat as a 50-gigawatt power plant generates (enough to run most major U.S. cities).

Today, engineers involved with PureCycle can't believe that no one thought of the idea earlier. Thierry Jomard, a former Carrier engineer who transferred to UTRC to lead the PureCycle development effort, explains: "Carrier people are trained to think in terms of using heat exchange to produce cold air—that's the output that counts; the compressor is just there to move the fluid. Pratt & Whitney engineers, on the other hand, are power people. The outcome they care about is power, and they use turbines to get it." It wasn't until they started talking together that anyone recognized the opportunity before them.

Of course, saying that networks are important is stating the obvious. In all but the most rote manufacturing and service environments, work has become a collaborative endeavor accomplished less through standardized processes and formal structures than through informal networks of relationships. But harnessing the power of these seemingly invisible groups to achieve organizational goals is a murky and elusive undertaking. For every success story like PureCycle, there are many more failures. The problem is, efforts to promote collaboration are often haphazard and built on the implicit philosophy that more connectivity is better.

Many executives are quick to introduce new technologies to promote collaboration, for instance. In fact, according to a 2002 report by International Data Corporation, collaborative applications account for nearly one-fifth of corporate spending on software; and Collaborative Strategies, a San Francisco-based management services company, has estimated that the market for real-time collaboration tools will reach almost \$6 billion this year. Yet most executives admit that they don't know if these investments are truly improving either collaboration or the quality of work. And if you ask them if they want another collaborative tool in their own work, the majority cringe at the idea of managing more contacts.

Rather than think about collaboration from a more-is-better perspective, executives need to take a clear-eyed, strategic view. They need to determine exactly what they want to accom-

plish through informal networks and, concurrently, what pattern and level of connectivity would best help them achieve their goals. Initiatives that create network connections indiscriminately—whether through technical applications or organizational efforts such as communities of practice—can take a toll on employees. Unproductive relational demands sap people's time and energy and can bog down entire organizations. Decision makers can become so consumed by managing contacts that their coworkers often cannot get to them in time to take action on opportunities. Many of us struggle to keep up with e-mail, phone calls, and meetings-often with substantial implications for both performance and quality of work life. That's why it's crucial for executives to learn how to promote connectivity only where it benefits an organization or individual—as well as learn how to decrease connectivity that isn't needed.

Three Types of Social Networks

Though all informal networks help organizations do two things—recognize opportunities or challenges and coordinate appropriate responses—effective networks look very different depending on strategic objectives and the nature of work within a given organization. Through our assessments of more than 60 networks across a wide range of industries, we have seen three network archetypes consistently deliver unique value propositions.

Customized Response. These networks exist in settings where both problems and solutions are ambiguous. New product-development companies, high-end investment banks, early-stage drug-development teams, and strategy consulting firms require networks that can rapidly define a problem or an opportunity and coordinate relevant expertise in response. Here, value is delivered by quickly framing and solving a problem in an innovative way.

Modular Response. These networks thrive in settings where components of a problem and solution are known but the combination or sequence of those components is not yet known. Surgical teams, law firms, business-to-business sales, and midstage drug development teams require networks to identify problem components and address them with modularized expertise. Here, value derives from delivering a unique response depending on the constellation of expertise required by the

Rob Cross (robcross@virginia.edu) is an assistant professor of management at the University of Virginia's McIntire School of Commerce in Charlottesville and coauthor of *The Hidden Power of Social Networks* (Harvard Business School Press, 2004). **Jeanne Liedtka** (liedtkaj@darden.virginia.edu) is an associate professor of business administration at the University of Virginia's Darden Graduate School of Business Administration. **Leigh Weiss** (leigh_weiss@mckinsey.com) is a consultant in McKinsey & Company's Boston office.

Routine Response

Internal

Social Networks at a Glance

Modular Response

Internal

Customized Response

Internal

	External	External	External
Best for:	Solving ambiguous problems that need innovative solutions	Solving complex problems where components of the problems are known but the sequence of the solutions is not	Solving familiar problems with known responses
Value is delivered:	In the problem's rapid framing and innovative resolution	In establishing and delivering the correct constellation or sequence of expertise	Through efficient, consistent responses to a set of established problems
Network connections:	Are dense and redundant, both internally and externally	Are focused on roles through which different parties can rotate; external connections are targeted to inform aspects of response	Are focused on process flow; external connections are limited
Trust:	Is placed in others' expertise	Is placed in role occupant	Is placed in process execution
Pricing:	Premium pricing for reinvest- ment in social capital	Moderate pricing for reinvestment in technology	Commodity pricing
Structure:	Permeable boundaries (inside and outside); decentralized decision rights and information access	Semipermeable boundaries (specific cross-functional junctures and liaisons); role-based decision rights and information access	Defined boundaries; embedded decision rights and information
Work management:	Planning focuses on general markets and expertise; controls focus on output, not coordination	Planning focuses on constellations of expertise; controls focus on integration at point of delivery	Planning focuses on offerings; controls focus on efficiency and reliable delivery
HR practices:	Develop and reward collaborative behavior	Hire, develop, and reward for functional depth; focus training on integration points	Hire, develop, and reward for specific task execution
Technology:	Expertise locators and portals	Role-based content systems and collaborative environments	Work management systems and artificial intelligence
Culture and leadership:	Collaborative within and across organizational lines, norms of generalized reciprocity	Shifting leadership, depending on domain; decision rights embedded in roles	Centralized decision making focused on standardization and task accountability
Example:	High-end investment banks, consulting firms, corporate R&D departments, early-stage drug	Law firms, commercial banks, surgi- cal teams, midstage drug develop- ment teams	Insurance claims processing– departments, call centers, late-stage drug development teams

development teams

problem (such as a surgical procedure or a lawsuit).

Routine Response. These networks are commonly found in environments where work is standardized. Problems and their solutions are well defined and predictable. Call centers, insurance claims—processing departments, and latestage drug development teams require the reliable coordination of relevant expertise to solve common issues. Value is delivered through efficient and consistent response to a set of established problems.

These three value propositions demand different network configurations and require executives to craft contexts in which appropriate patterns of collaboration are more likely to occur. Executives can't-and shouldn't-force collaboration onto all employees. But they can do a tremendous amount to create an environment that allows networks and collaboration to emerge in a productive fashion. This is a holistic challenge. Simply introducing a collaborative technology, tweaking incentives, or advocating cultural programs to promote collaboration is usually insufficient. Rather, leaders must also align work management practices, technology, and human resource practices. And beyond organizational architecture, specific cultural values and leadership behavior can have a striking effect on patterns of collaboration. (For an overview of network characteristics and underlying strategies, see the exhibit "Social Networks at a Glance.")

Customized Response at Novartis

Some networks provide value by connecting a wide range of experts who sense (usually novel) market or customer needs, frame the problem, and then rapidly coordinate expertise to meet those needs. Professional services firms, for example, enjoy productive client relationships for years because of their ability to use customized response networks effectively.

For a closer look at how this type of network functions, consider Novartis, the Swiss pharmaceutical company. In May 2001, Novartis won U.S. Food and Drug Administration approval for Gleevec, a breakthrough medication that arrests a life-threatening form of cancer called chronic myeloid leukemia, or CML. Gleevec enjoyed the fastest approval ever granted by the FDA for a cancer drug and is considered revolutionary because of the way it treats CML. With his colleagues, Alex Matter, Novartis's former

head of oncology research, redefined cancer treatment by looking at an old problem in a new way. Traditional cancer therapies can leave patients extremely weak because they attack both cancerous and healthy cells. Gleevec, by contrast, specifically targets cancer-producing molecules and fixes the genetic malfunction without harming normal cells.

Development of the tiny orange capsule would not have been possible without help from diverse external connections. Before Novartis even existed (the company resulted from the merger of Sandoz and Ciba-Geigy in 1996), Matter worked at Ciba-Geigy in Switzerland and had been considering the ways that some enzymes, called kinases, might affect cancer growth. At the time, most scientists thought it would be impossible to develop a compound that could cross a cell membrane to reach the kinases. But Matter was persistent, and his external contacts helped show him the way. Brian Druker, a medical oncologist who began working on this problem at the Dana Farber Cancer Institute in Boston, for instance, was instrumental in the early research because he told Matter that the cancer most likely to respond to his approach was CML. Of more than 100 kinds of cancer, it was the only one whose genetic cause had been scientifically established. Later, once the drug had been developed, Matter and his team relied on other external connections to identify potential hospitals for patient trials.

Internal connections at Novartis were also crucial at each stage of the process. In drug development, these dense networks allowed for frequent brainstorming sessions and included members from distinct scientific disciplines, such as chemistry and biology. Manufacturing success was built on healthy internal connections between members of the global development team in Switzerland and the manufacturing team in Ireland. For example, to meet demand, the company devised a creative way to produce Gleevec in large quantities in Ireland immediately, instead of manufacturing the drug in smaller quantities first in Switzerland, as was customary. That change shaved a year off the normal production schedule. But it wouldn't have been possible without trusted networks across geographic boundaries.

Of course, these network characteristics—devising a novel approach to a complex problem and assembling the right expertise to solve

it—did not arise on their own. Management made strategic decisions that encouraged such a network to develop. First, Novartis's organizational structure was deliberately designed to have permeable boundaries. The global oncology business unit, for instance, comprises marketing, sales, and research functions in different geographies. As Matter explains, "We bring together different disciplines, functions, and geographies to try to break up silos."

Second, while many organizations' planning processes unwittingly compel functionalor business-unit heads to focus on their own objectives, Novartis takes a different approach. The company pushes executives to consider ways that unique packaging of expertiseboth within and outside the organizationcould create new market opportunities to which they could respond. For example, the company routinely forms strategic alliances with industry partners and academic institutions to develop new products, acquire platform technologies, and access untapped markets. For instance, scientists in the company's disease area strategy group, which focuses on alliances and acquisitions for disease areas that are expected to drive growth, work closely together across boundaries that would separate them in most other companies. Using their extensive networks, they share insights into the fundamental mechanisms of disease as well as any potential overlaps in the causes of illnesses that appear clinically unrelated. This approach lets them quickly refocus on new opportunities as they arise.

Third, Novartis maintains a delicate balance between stringent productivity criteria and protection of individual employees' abilities to experiment and be innovative. For instance, when internal critics argued that the population of CML patients was too small to warrant such a high-risk investment, Novartis's CEO, Daniel Vasella, vocally and financially supported the team's efforts. He also rearranged organizational priorities to help Matter's team. When the company needed to reduce the time it took to manufacture Gleevec to meet demand, for example, Vasella supported the decision to move production immediately to Ireland to meet that goal. More broadly, Novartis's managers are encouraged to help junior colleagues connect to wider networks, both within and outside the company, and to protect their younger colleagues over long

stretches of lower productivity.

The approach seems to be working. Novartis's pharmaceutical products pipeline is one of the broadest in the industry, currently comprising 78 projects in clinical development or registration. The company also received seven major approvals for drugs during 2003 and has launched 11 new medicines in the United States since 2000. Productivity like that is the result of a great deal of collaboration within and across organizational boundaries.

Finally, Novartis invests in technology to help manage the vast sea of knowledge, creating a privileged knowledge environment for its scientists. Comprehensive databases help researchers assimilate volumes of external data, and various collaborative tools facilitate knowledge sharing among high-end experts. In keeping with its commitment to create an atmosphere for effective collaboration that will produce innovative drugs, Novartis recently announced plans to convert its headquarters in Basel, Switzerland, from an industrial complex to a campus with plenty of meeting areas to encourage the spontaneous exchange of ideas.

In January 2004, Novartis was voted one of the ten best European companies to work for by *Fortune*. It was the only health care company to make the list, and one reason employees cited was the collaborative nature of the organization and the many networks that run across hierarchical, geographic, and other organizational boundaries. In other words, Novartis excels at creating rich, customized response networks that produce innovative ideas and solutions.

Modular Response at the FAA

Rather than framing a problem in a new way (as a customized response network does), modular response networks address problems and opportunities by identifying the individual components of a problem and coordinating expertise to address each one. Financial transactions, for example, though unique to a given customer, typically require consistent kinds of expertise packaged to address a specific capital requirement. Similarly, systems-development consulting firms don't re-create the same system for different clients, but they do reuse components and apply consistent knowledge from one project to the next. In cases like these, when dimensions of the prob-

lem to be solved are more readily understood, it's not as important to have dense internal connections or links to external leading-edge thinking. Problems can be better solved by coordinating defined roles that any qualified party can step into.

Think about the coordination challenge confronting the U.S. Federal Aviation Administration. Air traffic control is divided into nine regions that hand off planes from one facility to another as they make their way to their final destinations. To get an idea of the complexity involved, consider that the southern region alone encompasses eight states and the Caribbean, and has approximately 1,600 facilities—ranging from major airports to unmanned devices operating on isolated mountaintops.

When things go wrong, a great deal of information is needed quickly, as is a coordinating body that can decide which problems to address and in what sequence. Because the FAA has vast internal systems expertise, it needs only a few external network ties that can deliver specific information, such as weather reports. Internally, however, employee expertise is highly specialized and dispersed across many locations. And responding to disruptions in service often involves approvals and decision making from a wide range of supporting organizations, such as headquarters, hazardous materials teams, and the Occupational Safety and Health Administration. Without a specific coordination mechanism, information overload could quickly occur, and critical decisions could be delayed while people try to determine who is in charge of what. To deliver value, the FAA's network cannot be free-form like the customized response networks. Neither can it be overly prescribed, however, because each problem demands a different constellation of expertise and decision-making authority.

That's why the FAA adopted a role-based approach. When an event such as a hurricane occurs, the necessary roles are identified and mobilized by a team leader. Management roles include the information point of contact, who captures, sorts, analyzes, and communicates data to ensure everyone receives information from one consistent source; the technical plans and programs coordinator, who provides response plans and makes staffing and equipment decisions; and the incident commander, who acts as the liaison with other divisions,

conducts financial assessments of solutions, and is the overall team leader.

Anyone with the requisite expertise can step into a specific role. Depending on the nature and duration of the event, people can rotate through a given role as well. Because each team member knows what to expect from a particular position through training and well-defined processes, trust is easily established, enabling swift coordination among relative strangers. Further, because the modules of response are generally the same (only their packaging is unique to a given event), the FAA can adapt innovative solutions from one region to another to improve performance throughout the whole organization.

When the first plane struck the World Trade Center in the September 11 terrorist attacks, for example, the Southern Region rapid response system kicked into gear. Within approximately 15 minutes, emergency operations centers at seven locations were up and running. Although no FAA facilities were physically damaged, steps had to be taken to secure them and to protect employees.

The situation was very different from a weather disaster such as a hurricane, for which the agency typically would have days to prepare. All information would flow "up" from the areas affected by the storm, be verified and validated by the information point of contact, and then disseminated. On September 11, however, the agency's approach was reversed: Instead of gathering data from the field, the emergency operations centers had to gather information from the national program offices, regional security, and management—and then rapidly communicate that information to employees. Relying on established roles and customized software applications helped keep everyone informed, acting on consistent information, and coordinating work and activities rapidly in the face of an entirely new crisis.

Of course, a modular response network requires more than just technology and a set of well-conceived roles. Employees must not dogmatically adhere to formal hierarchy but, instead, be ready to follow those individuals with the necessary expertise who step into a specific role at a given time. Formal leaders must be willing to give up decision-making authority when others, who are better informed, are performing a particular role. And followers must not be afraid to take risks. Because of this, the

FAA has changed the way it educates and supports its employees, driving decision making to the lowest level possible. The investment has been worth it. Without this role-based network, the FAA would need to keep teams out in the field to respond to incidents, at a cost of \$15,000 to \$25,000 per day.

The modular response also influences the FAA's training philosophy: valuing technical depth over generalist skills. Most technicians do not need to work together to do their jobs. Therefore, training on a broad set of response systems is less effective than developing depth in specific areas and then making sure everyone understands each role and how to use the technology to stay connected during a crisis.

To be sure, this coordination challenge is not unique to the FAA. Large corporations like IBM and BP are trying to become more nimble through modular response networks in areas such as software development and drilling. By reallocating information access and decision-making authority from hierarchies to roles, these organizations can be more responsive to the opportunities and challenges they face. Coordinating work in a modular way lessens the investment a company must make to ensure that the right people talk to the right people; at the same time, it allows for some customization in the delivery of products and services.

Routine Response at Sallie Mae

The third type of network creates value by coordinating expertise to provide reliable responses to recurring problems. Call centers and claims-processing departments at insurance companies become more efficient and better serve their customers when work is taken out of the network and embedded instead in systems, processes, and procedures. For example, to make responding to customer queries more efficient, an organization can prescribe patterns of interaction, minimize unnecessary relationships within and outside an organization, and employ a formal structure that focuses collaboration on inputs and outputs.

Call centers are prominent in four main industries: financial services, telecom, high-tech, and airline. Most of us have dealt with a call center at some point, and many of us have been frustrated. We get put on hold or transferred to one person after another—none of whom can answer our questions. But compa-

nies with call centers have a very strong incentive to improve customers' experiences, since unhappy callers are likely to vote with their wallets the next time they buy a computer, choose a bank, or the like.

Deborah Bragg is the vice president of Texas servicing and call center operations at Sallie Mae, the largest private provider of educational loans in the United States. The company owns or manages approximately \$100 billion in student loans for more than 7 million borrowers, and Bragg oversees customer service. "Our goal is to resolve a customer's question on the first contact while minimizing service expense to the company," she explains. That's no small task: The center receives nearly 20,000 calls per day.

A specific set of network characteristics helps Bragg and her team make sense of a jumble of customers' questions. Internal connections are focused on the process flow of different categories of requests, such as customer questions about a new product. What's more, these connections are intentionally designed and circumscribed—they're not ad hoc, as in a customized network-to make the processes more effective and efficient. And unlike a modular network, which centers on distinct roles, the routine response network at Sallie Mae follows defined process flows. For example, interactions typically occur among supervisors reviewing calls and then between call center agents and their supervisors, who give feedback and coaching. A horizontal communication network that directly connected call center agents would be inefficient and would reduce the consistency of customers' experiences.

The call center management and staff have very limited external connections. Those that exist serve highly specific purposes, such as bringing in an expert to redesign a Web site. For the most part, the nature of the inquiries at the call center are such that developing, nurturing, and maintaining external relationships are unnecessary costs.

The way a routine response network is structured allows collaboration to be focused on specific inputs and outputs. For example, Sallie Mae analyzes repeat call trends at least once per month to identify reasons for higher volume. When another part of the company is the cause, the center provides internal feedback to that department. So if customers don't

understand a new loan product, the call center manager quickly contacts the group responsible for the new product to let the team know what consumers are saying. "Focused collaboration allows us to deliver clearer information to our customers and, in turn, reduces repeat and additional calls, improves our customer service, and contains cost," Bragg says.

Process flow also defines the way that agents locate experts. The center has an interdepartmental referral process to help agents find the right person for the call. For example, even though the call center doesn't process applications for new loans, it keeps tabs on new loan products. That way, if a parent whose loan Sallie Mae services calls the center because she needs to borrow money for another child, the representative can direct the call to a person who handles new loan approvals. For agents, the need to locate experts is filled by the call escalation process, in which a call is passed up a hierarchy of specialists with ever more decision-making authority.

Of course, the knowledge that agents need is constantly changing as new products are introduced and customer queries change. So the center must be able to do what Bragg calls "nimble servicing": reacting in real time to a dynamic environment. In part, this means identifying new trends and embedding learning in work processes so that the network doesn't take over or become more ad hoc.

One way Sallie Mae uncovers new trends is through a process called "hot topics." When agents notice a trend, they write a summary of it with examples and send an e-mail to management so that the issue can be reviewed. Once a resolution is determined, a Knowledge Tool is created—a user-friendly online resource that agents can access for real-time information. The online system is a repository for the expertise of the entire call center. So by typing in a keyword from a caller's question, an inexperienced agent can retrieve all the information he or she will need to answer it.

Bragg and her colleague Debra Walsh, Sallie Mae's director of training and quality assurance, have made strategic decisions about work management processes, human resource practices, and technology to support the efficient coordination of expertise and reduce the need for expensive, unproductive interactions. The operation's structure is designed to incorporate proficiency in processes, tools, and technology to support the efficiency in processes, tools, and technology to support the efficiency in processes, tools, and technology to support the efficiency in processes, tools, and technology to support the efficiency in processes, tools, and technology to support the efficiency in processes, tools, and technology to support the efficiency in processes, tools, and technology to support the efficiency to support the efficiency in processes, tools, and technology to support the efficient coordination of expertise and reduce the need for expensive, unproductive interactions.

nologies, as well as to keep internal and external boundaries well defined.

Sallie Mae uses additional work management processes to emphasize the reliable delivery of quality service. Calibration exercises, for instance, are performed weekly. Supervisors, trainers, and quality assurance staff review and score agents' calls. They discuss variances, identify gray areas, and develop best practices, which are then entered into the online knowledge system. Management also evaluates each agent's call escalation process to see which agents might need more training and whether the specialists are able to respond. All these actions help to keep the informal network functioning as efficiently as possible.

Human resource protocols emphasize hiring, training, and rewarding call center agents individually for superior call center service. As Bragg explains, "One of the age-old problems in a call center is the hours of operation and who gets to work which shift. A couple of years ago, we moved to performance-based scheduling. An agent's performance-based score is determined by the quality of his or her work, attendance, and productivity. Those with higher performance-based scores have the option to work the more desirable shifts." Compensation and career advancement are also tied to the score. This approach works because, unlike in a customized environment, more of an individual's performance can be assessed independently of a group of collaborators.

During the training period at Sallie Mae, agents spend their first six weeks in a class-room learning basic tools and technologies, and the quality-assurance review process. Then the agents go on to develop different skill sets related to the type of calls they will handle. They might, for instance, focus on a private-loan education program, which is customized by school, or on different student-loan repayment options. To help agents learn new skills at their own pace, computer-based training is also available. Training in modular and customized environments, by contrast, focuses more on collaborative skill development and on creating connections across boundaries.

Sallie Mae's management relies on several technologies to embed information and knowledge into work processes. The online Knowledge Tool system is one example. Another is a quality-monitoring system that randomly captures calls (voice and screen), which supervi-

Executives can't simply hope that collaboration will spontaneously occur in the right places at the right times in their organizations.

sors can then score and review with agents. A third example is the center's use of self-service Web sites. In 2002, the hot topics forum revealed that the service on the Web-payment site was not sufficiently user-friendly. Call center managers worked with a cross-functional group responsible for the site to deploy a more robust product by the end of the year. Within three months, call volume for issues related to bill payment fell by more than 75%—from more than 20,000 calls to fewer than 5,000 calls per month. This reduction in volume translated into cost savings of more than \$56,000 in that short time.

Embedding information in processes when work can be standardized has significant advantages. In the first half of 2003, 88% of Sallie Mae customers were satisfied with their most recent call to the center, according to an independent research firm. The same firm benchmarks the financial-services industry's average score at just 74%.

In many ways, the natural unit of work has migrated from the responsibility of the individual

to networks of employees. But although collaboration can have wonderful outcomes—think of PureCycle or the cancer-fighting drug Gleevec—it can also have darker consequences. Countless meetings drain employees' time and energy, and unclear leadership roles can delay decision making. Executives can't simply assume that more connectivity is always better, nor can they just hope that collaboration will spontaneously occur in the right places at the right times in their organizations. They need to develop a strategic, sophisticated view of collaboration, and they must take steps to ensure their company establishes the types of social networks that best fit their goals. The frameworks presented here give executives the tools they need to determine which network will deliver the best results for their organizations and which strategic investments will nurture the right degree of connectivity.

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